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Message Text

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70
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-06 LAB-01

SIL-01 FEA-01 H-01 L-01 INT-05 AGR-05 SWF-01 SPM-01

TAR-01 IO-04 PA-01 PRS-01 USIA-06 DRC-01 /092 W
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R 171923Z OCT 74
FM AMEMBASSY TEGUCIGALPA
TO SECSTATE WASHDC 8363
INFO AMEMBASSY GUATEMALA

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GUATEMALA FOR ROCAP AND AGATT

E.O. 11652: N/A
TAGS: EAGR, ECON, HO
SUBJECT: HURRICANE FIFI: U.S. BANANA COMPANIES RECONSTRUCTION PROGRAMS

REF: TEGUCIGALPA 4216

BEGIN UNCLASSIFIED

SUMMARY: STANDARD FRUIT (CASTLE AND COOKE) AND TELA RAILROAD COMPANY (UNITED BRANDS) HAVE MADE PRELIMINARY EVALUATION OF DAMAGE TO THEIR PRODUCTIVE FACILITIES AND HAVE INITIATED RECONSTRUCTION PLANS. FINAL FORMULATION THESE PLANS DEPENDENT UPON RESPONSE OF GOH AND CONTRACT PRODUCERS. PRESENT TREND IS TOWARD REESTABLISHMENT OF ANNUAL BANANA PRODUCTION BY 1976 AT OR SLIGHTLY BELOW PRE-HURRICANE 1974 ANNUAL EXPECTATIONS. ZO ACTION REQUESTED. END SUMMARY.

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1. STANDARD FRUIT REGIONAL MANAGER, HOMER EATON AND HONDURAN

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MANAGER, MICHAEL ROTOLO, EXLVAINED PROSPECTS FOR RECONSTRUCTION ON OCTOBER 15. COMPANY HAS RECOMMENDED SOME MINOR ALTERATIONS IN ITS OBLIGATIONS TO THE GOH, FOR EXAMPLE, TERMINATION OF RAIL SERVICE BETWEEN TELA AND LA CEIBA, WHICH ARE SMALL COST SAVINGS POSSIBILITIES WITHOUT MAJOR IMPORTANCE TO OVERALL COMPANY OPERATIONS. GOH HAS THESE MODIFICATIONS UNDER CONSIDERATION. SURCHARGE ON EXPORTS WAS NOT RAISED BY EITHER COMPANY OR GOH.

2. STANDARD FRUIT PROGRAM IS TO REESTABLISH PRODUCTION OF BANANAS IN CERTAIN PRODUCTIVE AREAS WHILE SHIFTING MARGINAL AREAS TO ALTERNATE CROPS. MARGINAL AREAS INCLUDE SOME OWNED BY PRIVATE INDEPENDENT PRODUCERS UNDER CONTRACT TO STANDARD. STANDARD MUST CONVINCE THESE PRODUCERS OF DESIRABILITY SHIFT TO OTHER CROPS. INITIAL SHIFT WOULD BE TO CORN FOR IMMEDIATE CASH RETURN. LATER CROPS INDETERMINATE BUT PROBABLY IN DIRECTION OF DIVERSIFICATION TOWARD EXPORT ORIENTED PRODUCTION OTHER THAN BANANAS. TWO OF STANDARD'S FIVE INDEPENDENT PRODUCERS HAVE TENTATIVELY AGREED TO PLAN. FOUR COOPERATIVES UNDER CONTRACT WOULD TAKE SOME LAND OUT OF PORDUCTION OF BANANS. STANDARD FRUIT PREPARED TO PROVIDE TECHNICAL ASSISTANCE AND MARKETING ASSISTANCE TO CONTRACTORS AND COOPS REQUIRED FOR SHIFT OF CROPS. FIRST CROP WOULD BE CORN, A KNOWN TECHNOLOGY WITH POSSIBLE SHIFT TO VEGETABLES IN 1975-1976. END UNCLASSIFIED

3. BEGIN LIMITED OFFICIAL USE: ON PROPRIETARY INFORMATION BASIS STANDARD FRUIT PROVIDES EXPECTATIONS OF ITS 1974, 1975 AND 1976 PRODUCTION. PRODUCTION ESTIMATE IN 1974:

PRE-HURRICANE 27.4 MILLION BOXES, POST-HURRICANE 15.6 MILLION BOXES. PRODUCTION IN 1975 IS ESTIMATED AT 12.2 MILLION BOXES AS COMPARED WITH PRE-HURRICANE ESTIMATE OF 25.0 MILLION BOXES. THIS PROJECTION IS MORE OPTIMISTIC THAN THE ORIGINAL EXPECTATION OF 75 PERCENT LOSS FOR 1975. IT IS, HOWEVER, A SERIOUS DROP FROM THE EXPECTED EXPORTS IN 1974 OF 21.4 MILLION BOXES AND THE ACTUAL EXPORT IN 1973 OF 26.2 MILLION BOXES. FOR 1976, ITS PRODUCTION IS ESTIMATED AT 20.5 MILLION BOXES. END LIMITED OFFICIAL USE.

4. BEGIN UNCLASSIFIED. STANDARD FRUIT REHABILITATION
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COSTS ARE ESTIMATED AT $13 MILLION WHICH INCLUDES ALMOST $9 MILLION FOR RECONSTRUCTION OF FARMS AND NEW PLANTING. STANDARD PLANS EMPHASIZE IMMEDIATE PLANTING OF CORN TO OBTAIN CASH CROP AND PROVIDE FOR INTERNAL CONSUMPTION NEEDS.

5. TELA RAILROAD INFORMATION LESS COMPLETE. DAMAGE TO ITS PRODUCTIVE CAPACITY HIGHER. IN ADDITION, UNITED BRANDS APPARENTLY IN TEMPORARY CONDITION OF BEING SHORT OF WORKING

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CAPITAL. COMPANY NONETHELESS MOBILIZING RESOURCES TO MAKE IMMEDIATE PLANTING OF CORN IN SOME AREAS. LONGER TERM PLANS NOT JELLED BUT GIVEN VERY SIMILAR CONSTRAINTS OF WORLD MARKET CONDITIONS AND LOCAL POLITICAL ENVIRONMENT, PATTERN FOR TELA RR MAY SHOW GREAT PARALLEL TO STANDARD FRUIT THINKING. SPECIFIC FIGURES ON EXPECTED PRODUCTION FOR LTLA RR NOT AVAILABLE. END UNCLASSIFIED.

6. BEGIN LIMITED OFFICIAL USE. COMMENT: EMBASSY BELIEVES BOTH COMPANIES HAVE DRAFTED PLANS WHICH ACCOUNT FOR THE SERIOUS PROBLEMS WHICH AROSE EARLIER THIS YEAR ON THE BANANA EXPORT SURCHARGE ISSUE. BOTH HONDURAN SUBSIDIARIES WILL BE IN LOSS POSITION FOR 1974, 1975, AND PROBABLY 1976. INTERNATIONAL COST OF MONEY IS A SERIOUS IMPEDIMENT TO REESTABLISHING FULL PRODUCTION. LIKEWISE, BOTH COMPANIES HAVE SOUGHT MODES OF PRODUCT DIVERSIFICATION IN HONDURAS FOR THE PAST DECADE. BASIC TREND IN COMPANY THINKING APPEARS TO BE THAT LAND OWNERSHIP AND CONTROL OF MAJOR EXPORT COMMODITY POLITICALLY PASSE. TREND IS TOWARD CONCENTRATION OF COMPANY RESOURCES IN INTERNATIONAL TRANSPORTATION AND MARKETING RATHER THAN PRODUCTION. DESTRUCTION OF HURRICANE CLEANS PART OF SLATE FOR NEW APPROACHES AND RELATIONSHIPS FOR BOTH COMPANIES IN HONDURAS. BOTH COMPANIES FEEL INTENSE OBLIGATION TOWARD LOCAL ECONOMY BUT ECONOMIC CONDITIONS AND POLITICAL TRENDS MILITATE AGAINST SIMPLE REESTABLISHMENT OF PRE-HURRICANE PRODUCTION. BOTH COMPANIES HAVE EXCEPTIONAL, IF NOT UNIQUE, CAPACITY TO CREATE DIVERSIFICATION OF HONDURAN AGRICULTURAL EXPORTS AND PLACE THEN IN THE WORLD MARKET. HOWEVER, INTENSIVE EFFORT WILL BE REQUIRED TO SHIFT COMPANY ORIENTATION AWAY FROM MANAGEMENT OF ITS OWN FARMS AND PRODUCTION INTO A PATTERN OF DEVELOPING LOCAL PRODUCTION TO MEET INTERNATIONAL MARKET DEMANDS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, NATURAL DISASTERS, BUSINESS FIRMS, ECONOMIC RECONSTRUCTION, BANANAS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 17 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TEGUCI04458
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740296-0598
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741037/aaaabfvy.tel
Line Count: 154
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: TEGUCIGALPA 4216
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 16 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 SEP 2002 by boyleja>; APPROVED <05 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HURRICANE FIFI: U.S. BANANA COMPANIES RECONSTRUCTION PROGRAMS
TAGS: EAGR, ECON, SWEL, HO, US, UNITED BRANDS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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